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Jitec scandal blows open as CEO resigns

JITEC *from page B1*

The $1.2-million came from the sale of inventory from Jitec's former retail stores and from transfers of the company's accounts receivable, Jitec said in a news release issued yesterday but dated late Tuesday.

Meanwhile the Montreal-based computer networking firm warned that two major contracts previously announced may not bear fruit.

It also fired back at critics and short sellers who have expressed doubts about the technology it sells, saying a board-commissioned report by consultants PricewaterhouseCoopers confirms it has a viable product in the market.

Mr. Laliberté, a 28-year-old entrepreneur whose 62-per-cent controlling stake in Jitec was at one point worth $454-million, issued his own news release yesterday, saying it was important to set the record straight.

"I would like to state that the transactions mentioned in Jitec's press release were never made for my personal gain," he said. "On the contrary, these dealings were only conducted in the best interests of Jitec and its shareholders. The situation will be sorted out as soon as possible."

Mr. Laliberté, whose penchant for commuting to work in his private helicopter created a buzz in Montreal circles, had already temporarily stepped down from his functions as president, chief executive officer and director of Jitec after the Quebec Securities Commission banned him Nov. 10 from trading Jitec stock.

The QSC, which continues an investigation into unusual trading patterns in Jitec, alleges he traded hundreds of thousands of Jitec shares through accounts he opened at five Montreal-area investment dealers in order to artificially boost the stock's value.

The QSC also alleges he transferred eight million of his Jitec shares to 35 people or companies and did not declare those transfers, and that he failed to declare several Jitec trades under insider trading reporting requirements.

Mr. Laliberté has said he will contest the trading ban at a QSC hearing, now scheduled for Dec. 1 after being postponed from last Friday to give time for his new lawyer to become familiar with the case.

He said in yesterday's statement that he "will work" with the QSC "in order to bear out his integrity."

This latest blow to Jitec comes just as it prepares to release its first set of quarterly financial statements since becoming a public company.

A former Jitec employee who did not want to be named said the company will not meet its internally stated target for units sold by the end of the first quarter. Asked about that, interim president Michel Brown said: "It would be lying to say, with all the media publicity, that there hasn't been a slowdown at the level of sales."

Jitec leases no-frills computer terminals connected to powerful servers at its operations centre to small and medium-sized businesses. Companies renting the service for $40.95 a month can access sophisticated software and high-speed Internet service.

On Tuesday, trading in the shares was halted at the request of Jitec, pending news. The ME allowed the stock to resume trading yesterday after Jitec's announcement of Mr. Laliberté's resignation. Jitec said it has not found a replacement for Mr. Laliberté and that Mr. Brown, vice-president of operations, will continue as interim president.

It said it named a special committee of independent directors on Oct. 18 to "protect the interests of minority shareholders of Jitec and to make appropriate recommendations to the board on the operations of the company."

The company said it has "sufficient resources to sustain its current operations, based on its other assets and liquidities." It added that the committee "will be making appropriate recommendations to the board as to the alternatives available to the company in the near to mid-term."

ALLEN McINNIS/CP

Jitec says founder and CEO Benoit Laliberté will repay $865,000 in unauthorized advances and expects the return of $1.2-million that went to companies connected to him.

Jitec said the advances to Mr. Laliberté were made "without the knowledge and consent" of Jitec's board.

Petopia in talks to sell to partner

PETOPIA *from page B1*

But better market conditions have failed to materialize.

"The idea was dictated by the markets," said a source familiar with Petopia who predicted the etailer is on track to turn a profit within 12 months.

"[The merger with Petco] may or may not have been something that happened at some future point, but with the markets the way they are, the reality is it's very difficult or impossible to raise money from public financial investors," the source said.

"If there's not enough capital to get to you to profitability, then you need to have another path and the path . . . [here] is to fold the company into the Petco umbrella."

Ms. Reisman, chief executive officer and a founder of Petopia, declined to comment on the company's future. She is the daughter of Indigo Books Music & more Inc. CEO Heather Reisman, who is married to Onex Corp. CEO Gerry Schwartz. It's not yet known whether Andrea will stay on at the helm of Petopia under full Petco ownership.

News of the Petopia-Petco deal in the works comes amid a Darwinian-like thinning of the on-line pet supply ranks. Pets.com Inc. closed its doors Nov. 9 after a desperate search for new capital failed. Its demise came six months after it struck a deal to buy the assets of rival Petstore.com Inc.

Last month, Petopia laid off 120 employees or 60 per cent of its staff, a move that sources familiar with the company say was made with the developing Petco deal in mind. It's anticipated Petopia will draw on Petco staff.

Analysts Carrie Johnson and Lisa Allen of Cambridge, Mass.-based Forrester Research Inc. said in a Nov. 7 report that Petopia "faces imminent closure for the same reasons that plagued Pets.com — lack of funding and consumers who choose brick-and-mortar stores over the Web for buying heavy bags of food and live animals."

Petco is a leading U.S. retailer of pet food and supplies.

Competition Bureau raided power offices

COMPETITION *from page B1*

Mr. Thode added the bureau has called Enron only once with a question about the files. "It remains just allegations," he said.

"We are confident that all of our activities have been in the rules of the Power Pool of Alberta and within applicable Canadian laws."

Both he and Wayne Cousins, a spokesman for Powerex, the trading arm of **British Columbia Hydro and Power Authority**, said they didn't know if their companies are still being investigated.

"Powerex is confident that the bureau's investigation will find that the company has not violated the rules of the Alberta Power Pool," Mr. Cousins said.

A spokesman from the Competition Bureau was not immediately available to confirm whether the investigation is continuing, but sources close to the bureau said it has been keeping an eye on the electricity markets in British Columbia, Alberta and Ontario as those provinces deregulate.

While most of the bureau's monitoring has been in the form of advice, the regulator has taken steps for more direct intervention, sources said.

Deregulation of the electricity market is still new and the market is not established, giving companies in the sector ample opportunity to play with the system, sources said.

According to the search warrant, the bureau began investigating the two companies when Power Pool of Alberta system controllers noticed the price for a megawatt of electricity frequently rose above $100.

In the Alberta system, participants submit bids to buy or sell power for the following day, and the price per megawatt of power is set by the most expensive unit needed to meet demand.

Until the Power Pool changed its rules on Oct. 20, 1999, a participant could change the amount of power it bid or offered up until 20 minutes before the hour of transmission. The search warrant covers the companies' actions from June 1, 1999, to Oct. 19, 1999.

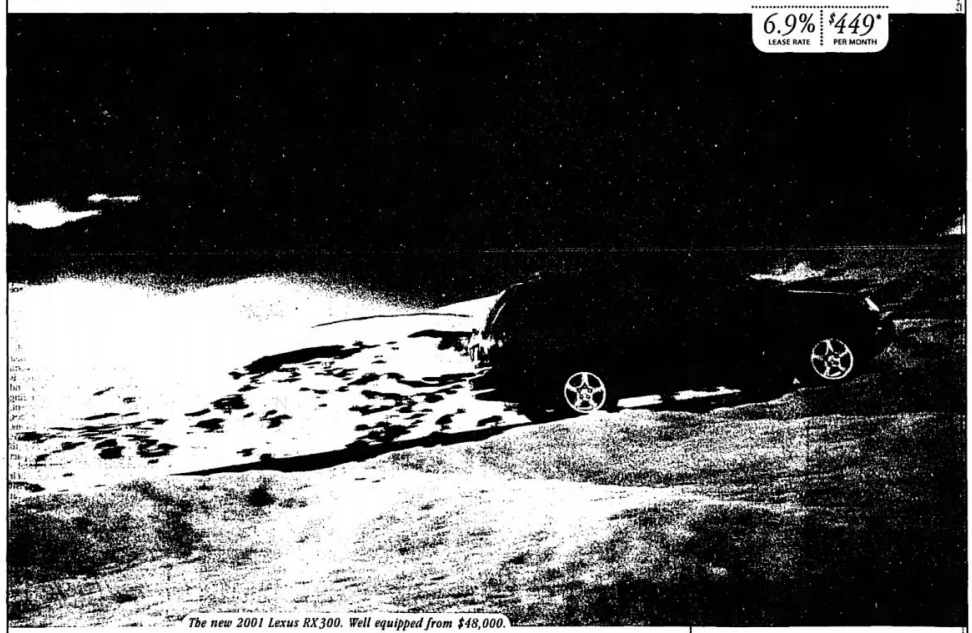
Mr. Thode said investigations of this nature are common in deregulating markets.

"It's happened in California this year, it's happened in the Midwest, it's happened around the globe. It's not unusual to see this type of investigation occur," he said.

He added the Power Pool is required to call in the federal agency whenever there are allegations.

With files from reporter Heather Scoffield

On-road, off-road. Tomāto, tomato.



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